

MANAGEMENT OF TOURIST COMPANIES ON THE MODERN TOURIST MARKET

Slobodan Cerović, Ph.D.

Faculty of Natural Sciences,
University of Novi Sad
slobodancerovic@hotmail.com

Abstract

Substantial differences have characterized modern trends on the tourist market in the period before and after 1990. There is almost no country in the world that does not reckon seriously with tourism in its economic development. The modern-day tourist is an increasingly "spoiled" consumer of tourist services and his/her requirements are specific and partial. The higher standard of living of the population and an ever greater amount of leisure time, as well as the development of transport technology and service technology in general accounted for important changes in the demand, bringing about considerable changes in the supply, primarily in the adaptation of the tourist product to the requirements of an increasingly sophisticated demand and the changes in the process of marketing, management and application. This paper focuses on modern trends on the tourist market and the necessity to apply the knowledge of modern management and marketing.

Keywords

- Tourism;
- Management;
- Strategy;
- Marketing;
- Globalism.

Rezumat

Diferențe substanțiale au caracterizat orientările moderne pe piața turistică înainte și după 1990. Aproape că nu există țară în lume care să nu ia în considerare, în mod serios, turismul în dezvoltarea ei economică.

Turistul modern de astăzi este un consumator de servicii turistice din ce în ce mai, "răsfățat" și cerințele lui sunt specifice și subiective cât și timpul liber în continuă creștere, dezvoltarea tehnologiilor de transport și de servicii aduc schimbări importante în ceea ce privește cererea, antrenând schimbări considerabile ale ofertei, în primul rând în adaptarea produsului turistic la cererea tot mai sofisticată, la schimbările proceselor de management și marketing și aplicarea lor.

Prezentăm unele tendințe moderne pe piața turistică și necesitatea aplicării unor programe de management și marketing moderne.

Cuvinte cheie

- Turism;
- Management;
- Strategie;
- Marketing;
- Globalizare.

1. Introduction

Tourism as a social and economic phenomenon, i.e. an economic activity, is exposed most directly to constant and profound changes. The tourist market and activities are continually developed, assuming unimagined proportions. Tourism as a general phenomenon of this century has been the first activity that assumed global dimensions. By its economic, sociological, psychological, political and other attributes, it will be the first industry to approximate, by the size of its transactions, the oil and automobile industries.

2. Contemporary tendencies on the tourist market and the dynamics of market trends

World projections for the growth of international tourism are focused on:

- tourist activities - a relatively high average annual growth rate (of 3.3 per cent to 3.5 per cent);
- tourist consumption (proceeds) - the growth rate faster than the number of tourists (of 5.5 per cent to 6.0 per cent);
- anticipated regional structure - stagnation in Europe and a somewhat slower growth in the Americas, expansion in the Caribbean, East Asia and the Pacific;
- anticipated sources of the tourist demand, i.e. consumption - dominant role of the most developed countries with increased participation by medium-developed countries and some developing countries (China, Russia and Brazil);
- structure of the tourist countries taking part in the distribution of international tourism - increased participation by the countries of East Asia and the Pacific, the Caribbean, Africa and South Asia; as to individual countries, it is expected that the role of China and Russia will increase;
- structure of tourists by income - the greatest number of tourists will be the people of medium and low incomes (they

have, after all, accounted for tourism's growth into a large-scale phenomenon); tourists will increasingly use organized tourist transport - the so-called package deals and the automobile in individual tourist transport;

- quality of tourist stay (product) - requests to raise the quality even at a higher price of service are expected (for board and accommodation, as well as for leisure, sport, entertainment and culture);
- demands on tour operators to devise new and more diversified travel quality programmes;
- synchronization of the process of the supply of the tourist product with the sources of the tourist demand (including both public and private sectors);
- special attention to be accorded tourists of high incomes - individual tourist travels (trips to remote areas, nautical tourism, cruises, hunting) - important groups of tourists to participate at numerous international political, scientific, cultural, fair, sports and other events;
- change of the tourist demand - increased participation by young people (especially students) and senior citizens;
- role of organized tourist activities to increase continuously (this type of tourist travels has already reached about 50 per cent of the share of all tourist events in the world) - their continued development to be conditioned in great measure by the ability of tour operators to adapt themselves to the requests of various tourist demand segments (in respect of the quality and price of package deals);
- it is expected that individual tourist activities will continue to be ranked high.

The dynamic tourist movements will continue to be directed basically in three principal directions: warm seas, mountain resorts and big cities.

The following structural changes are projected within the three most important segments: a slower growth of tourist activities directed towards the warm seas (except the Mediterranean and the Caribbean) and a rapid growth of

tourist activities directed towards mountain resorts and big cities, combining tourist, business and cultural contents.

In addition to these, there is a whole series of other changes which, apart from affecting the situation in the political and economic environment, may influence the future development of international tourism as well. They include:

- de-concentration of international tourism across a year (although summer months are expected to play the dominant role);
- tendency of a faster growth of trips to remote areas, while medium- and short-range distances will continue to account for a substantial share of international tourism;
- increase of the promotional activities of national tourist organizations, as well as tour operators, hotel companies and other participants on the international tourist market;
- increase of the competition and the emergence of new tourist countries, i.e. destinations, on the international tourist market;
- increase of the big business interest in the international tourist market;
- preparation of modern forms of business operations in tourism with reliance on the marketing conception and modern information technology;
- addressing environmental problems in tourist countries (in many countries space will be a limiting factor of the development of tourism and their successful inclusion into the international tourist market);
- quality workforce in tourist industries may be a catalyst to development, as well as a development-limiting, missing factor;
- complex development of tourist industry and the raising of the quality of tourist services and the overall accommodation of tourists (leisure and

entertainment facilities, as well as the construction of flexible accommodation capacities of medium and low categories, along with a relatively less extensive construction of luxury hotels, except in big cities and exclusive resorts);

- increase of the role of nautical tourism and various aquatic sports, as well as of active forms of leisure and winter sports activities in mountain resorts;

- prices of tourist services will rise more quickly than the rate of inflation due to the rise of the living standard and the nature of tourist needs;

- development of modern roads on the main routes and the continued expansion of air transport (new types of aircraft, modern airports and the merging of air carriers);

- process of a synchronized development of tourism with other economic activities;

- greater impact of international cooperation in the field of the promotion of international tourism (bilateral and multilateral relations among countries within regional integrations), i.e. a greater influence of the United Nations and WTO as advisory bodies;

- international tourism will grow faster than domestic tourism;

- greater respect for the requirements of international and domestic tourism in the elaboration of long-term conceptions of the development of tourism.

Development projections of international tourism may also be made on the basis of its own important trends:

- continued, relatively faster growth of the number of trips to faraway destinations;

- greater application of the marketing conception in tourism, along with more extensive use of modern

information technology, promotional and other activities;

- greater interest of big business from various fields;
- continued growth of organized tours in international tourism at large;
- relative decline of interest in hotel accommodation and increased interest in holiday resorts which offer apartments, bungalows and villas as basic accommodation and in spas and sanatoria, as well as in modern camps with complementary accommodation;
- continued domination of tourists of medium and low capacities to pay;
- continued prevalence of the passenger car as a means of transport.

3. Strategic Management in Tourism

3.1. The strategic adaptation of tourist companies

In selecting strategies, for the purpose of adapting themselves to market trends and consumer requirements and at internationalizing and globalizing their businesses, tourist companies (hotels, restaurants, travel agencies and tour operators) have used different strategies and methods of growth. The common denominator of all changes has been the transformation of the domestic company into the global one, while its business behaviour has manifested itself in four orientations: a) ethno-centrism (operating on the domestic market); b) poly-centrism (diversifying business activities and setting up branch offices abroad, though with domestic market practices); c) regio-centrism (gearing business towards consumers and resources of the region, with regional work culture); d) geo-centrism (viewing the world as a potential and single market).

- **Hotel companies.** The adaptation of hotel companies is reflected in a)

expansion of service selection; b) greater use of modern technology; c) major organizational changes (horizontal and vertical linkage); d) stepping up sales. The most important trends may be grouped in the following way:

Purpose of facility

- a) setting up of hotel clubs (sport and leisure, as well as the exclusivity level, are main elements);
- b) emergence of resort facilities and centres;
- c) hotels made available for various events (conventions and conferences);
- d) luxury and inexpensive hotels;
- e) "youth hotels" or holiday centres.

Size of facility

- a) small family-type hotels (prevalent);
- b) mega-hotels (out of the 12 largest in the world, 8 are in Las Vegas).

Within international hotel chains, it is possible to distinguish a) corporate chains; b) management companies; c) voluntary chains/associations.

- **Restaurants.** The following factors accounted for the growth of restaurant service demand: 1. development of international and domestic tourism; 2. changes in the manner of the spending of time; 3. development of transport (provision of transport services); 4. changes of life styles. They resulted in the emergence of three groups of catering business: a) small, family-centred companies, b) companies consisting of a large number of units; c) internationally-oriented companies. All catering companies are characterized by a high level of service specialization and the application of the product and price differentiation strategy, as well as by the use, in their growth and development, of the strategy of direct investment, joint venture and contractual and other arrangements.

▪ **Travel agencies and tour operators.**

Travel agencies have diverged into tour operators and classic travel agencies. Their growth and development have been influenced in large measure by: (a) exchange rates; (b) air traffic deregulation; (c) trends brought about by demand changes and market trends. The most important factors of the growth of organized tours are: (a) development of transport technology; (b) changes of legislation and the development of charter arrangements; (c) greater amount of leisure time and the growth of household income; (d) other factors (stimulation trips etc.).

On the basis of the above-mentioned factors, tour operators may be classified as: mass market tour operators; specialist tour operators.

Further divisions can be made according to: a) destination; b) type of transport; c) type of accommodation; d) type of segment; e) type of content.

With respect to the method of growth and development and their orientation towards running business internationally, travel agencies and tour operators have combined internal and external methods (horizontal, vertical and conglomerate forms). Considerable use has also been made of contractual and other arrangements, as well as the "brand" strategy for positioning.

3.2. The possible strategies of tourist companies

One of the positions maintained in theoretical considerations of strategy options is that the basic division of strategies may be effected on the basis of the competitive position of the company and that, on that basis, strategies may be divided into offensive and defensive.

3.2.1. The strategies of growth

To assess the possibilities of growth, Ansoff considered the relationship between the company and the market and differentiated between the consumer and the mission. He considered that the product-market relationship must be assessed. He defined 4 strategies of growth: a) market penetration; b) market development; c) product development; d) diversification.

The strategy of vertical integration (forwards and backwards) has recently been added as a separate strategy.

The strategy of market penetration implies the conquest of the existing market by the existing product. It befits the goal if an industry is in the ascendant and there is considerable demand. It is useful if: •the market is not saturated with the existing products; •the rate of use by the buyer may be increased; •the market participation of main competitors is reduced; •correlation between the proceeds and marketing costs is high and calls for a further effort at the existing market; •the economy of the size serves as a basis for competitiveness.

The strategy of market development implies the introduction of the existing product on new markets. Kotler suggests two courses of action: 1) opening of additional geographic markets (regional, national inter-expansion); 2) attracting other economic segments.

This strategy is useful if there are reliable new channels of distribution; good business performances; non-covered and non-saturated market; necessary capital to carry out expansion; surplus of unused capacities; if a company becomes global.

This strategy is applied, in particular, by small and medium-size tourist companies which cannot become leaders on the market.

The strategy of product development is oriented towards changes

in the product in order to increase market penetration (lengthen the life cycle of the product). The strategy is considered attractive if: a) there is a successful product in the phase of maturity and is being improved; b) the development of technology is fast in the industry concerned; c) competition is offering better quality; d) the industry growth rate is high; e) a company has a good research/development team.

The strategy is characteristic primarily of the leaders on the global market, big tour operators and travel agencies, as well as big hotel chains.

The strategy of diversification is recommended if the company has a number of sources of ability and the substance of competence, but cannot achieve its business goals on the existing extent of relations or if it is after using free financial capital more effectively. It is considered that there are two approaches to diversification: a) linked diversification (a number of linked business lines: technology, expertise, common distribution channels, suppliers); b) non-linked conglomerate diversification (in the case of saturated market, the ongoing businesses have a tendency of decline and the company has free funds and the capacity to "buy" new businesses etc.).

The strategy of vertical integration is recommended if a company is after strengthening its competitive position based on substance of competence.

This strategy may be replaced by long-term agreements with suppliers and middlemen.

This strategy has the following advantages: it a) lowers costs; b) reduces stocks; c) saves time (otherwise lost in negotiations).

It is useful since it: a) avoids indirect approach; b) provides better technological and marketing information; c) enables greater creative differentiation;

d) secures superior control of might; e) provides synergy and trust.

This strategy has the following shortcomings: a) the need for coordination may increase costs; b) surplus capacity may occur; c) the vertical integration may be poorly organized.

The risks involved in the strategy are: a) multiplication of obsolete processes; b) mobility barriers; c) linkage of companies with weak additional businesses; d) loss of access to supply and distribution information; e) over-estimation of synergy; f) poorly devised integration.

3.2.2. The strategies of acquisition and merger (external method of growth)

The external method is the method of acquisition or merger effected by way of purchase or integration. The internal method of growth implies start from scratch by way of constructing and creating capacities and acquiring sources. It is particularly good if the entrance barriers are high. It requires less time to demonstrate profitability (It is considered that about 8 years are necessary for the internal method of growth to establish normal functioning).

The strategy of merger implies operation exchanges between two or more companies, while only one survives.

The strategy of acquisition is a purchase of a company and its consequent absorption. There are friendly and hostile acquisitions (takeovers).

The joint venture is the strategy of the external method of growth, although it may at the same time include both internal and external methods of growth depending on the form of a joint venture and the positions of the partners. This is particularly characteristic of tourist companies.

3.2.3. The strategies of contraction and U-turn

The **strategy of contraction** is used, by and large, if a company is faced with the problem of recession in its environment and if it has had a rapid growth and large investments. This strategy may be effected by way of lowering all costs (Internal economies are resorted to) or by way of singling out the weakest business units for liquidation or revival.

The **strategy of disinvestment** is used if the strategy of contraction fails to produce expected effects, if a strategic unit makes losses, if a company needs free funds for further investment etc.

The **strategy of "harvest"** is applied if deliberate steps are taken to reduce market participation in order to collect cash. This strategy is resorted to if: a) the market is in the phase of maturity; b) the product is of average or above-average quality; c) there exists significant market participation; d) the price is average or above-average.

The **strategy of liquidation** implies cessation of a business activity by way of the sale of the company assets and the closing down of its capacities. It is acceptable in case of a bankruptcy threat; the remaining assets are rounded up and re-directed.

3.2.4. Modern concepts of management of tourist companies

The last phase, the management system of strategic management, has developed within 4 basic concepts: contingency (multi-variant) planning; management of strategic questions; strategic management by weak signals; and management by surprises.

In addition to these timely management systems, mention can also be made of the so-called positioned systems

that correspond to the conditions and organizations, the environment and future, i.e. the changes, of which can be anticipated (projected). The positioned management systems consist of long-term planning, occasional, i.e. periodic, strategic planning and the management of strategic position. In the conditions of an ever more complex and less predictable environment, the innovative (progressive) organizations have developed various management systems that make it possible for them to be more responsive to such changes.

Long-term planning, as a management system that was based on the extrapolation of the past in the future has no utility value nowadays and organizations no longer practice it.

The business strategy of a tourist company begins and ends with selected market segments. This means that marketing activity is woven in into the entire business strategy. The marketing strategy elements are therefore the elements of the business strategy of the tourist company as well and vice versa.

The **basic elements of business and marketing strategies of a tourist company** are manifested in:

- permanent orientation to the needs and requirements of tourists;
- coordination and integration of all plans and activities in order to maximize the overall business efficiency;
- orientation to the basic target function of the tourist company (market share and profit or gain in different variations).

These basic elements should be viewed in an integral way and manifest themselves in concrete strategies of tourist companies.

A well-integrated business strategy encompasses a comprehensive plan of activities of a tourist company. It includes *a detailed definition of business philosophy, target functions, market*

segments, general and specific business activities and the control mechanism for a certain plan period.

Strategic management in tourism is reflected in a number of *specific features*, such as:

- comprehensive analysis of the needs for various institutions of tourism;
- exact assessment of business targets, a successful differentiation of the supply with respect to competition and its gearing towards selected market segments;
- assessment of the real need for a comprehensive and permanent study of the legal, economic and market environment;
- maximum coordination of all business and marketing activities;
- possibility of projecting and possibly avoiding unfavourable market flows.

3.2.5. The concept of positioning

As tourism and its structures continued to develop, tourist companies increasingly accentuated the strategy of the differentiation of the “offer package” with respect to appropriate market segments. The development took small and locally specialized companies to big multi-production tourist companies in domestic and international tourism. Parallel to this process, the economy of the size and the economy of the scope grew in importance for the tourist industry. Further on, ever greater emphasis was being placed on the strategy of gearing the supply towards selected market segments and consumers’ expectations. The market position of the tourist company is the result of its overall assessment and knowledge of all relevant tourists’ characteristics in the context of selected segments. They include tourists’ needs, requests and behaviour. In that sense it is necessary to identify tourists’ key dimensions and assess their perceptions and preferences in selecting

possible “offer packages” on the market. A concrete offer is always made up of a combination of selection, price, service, communication and tourist area.

The key for an effective positioning of a tourist company is in the selection of market segments, the specific needs of which have not been fully satisfied. A special “offer package” of the tourist company is designed on that basis. However, in order to implement effective differentiation strategies in tourism, the five following conditions must be met:

- only for market **non-dominant** tourist companies (by implementing attractive strategies of positioning, they can get a lot, while losing little); the core of the matter is to find out weak sides of the leader and to take over some of its tourists, as leaders have no need to position themselves in respect of weaker rivals since, objectively, they cannot improve their position by emulating those weaker than themselves;
- spotting **good opportunities** existing on the market in the implementation of the strategy of positioning; there must exist a real possibility of realizing a more effective position in the future and it is necessary to project to that end tourist consumption trends and flows in respect of competition;
- exact appraisal of the **relative position** in respect of the competition; finding out the way tourists look at own tourist products and services and at those of the competition (their upsides and downsides);
- existence of appropriate **structural elements** of the business operations of a tourist company; proper personnel, location of tourist facilities, selection, quality and appropriate turnover capital;
- **effective communication** with the market as a necessary precondition for the implementation of the strategy of positioning; promotional campaigns

directed towards the desired market position, emphasizing the presentation to tourists of those components that are effectively differentiated from those of the competition.

Generally speaking, the specificities of market positioning in the practice of tourist companies are noticeable by and large in the creation of the content of the offer of tourist facilities themselves. It is understandable that, in those conditions, the market positioning of tourist facilities is involved and the matrix of crossing the characteristics of tourists and tourist facilities is commonly used. The development of the strategy of positioning

The strategy of positioning takes the pride of place in modern concepts of the management of tourist companies. The development of the strategy of positioning takes place through a number of mutually dependent phases. The following six phases are most often encountered in practice:

- identification of the needs and wishes of selected market segments;
- analysis of benefits offered by the company compared with those offered by the competition present at the same market segments;
- identification of the most important benefits which are least important for the given market segment;
- research of benefits offered by the competitors and the response of the market segment to their overall offer;
- adaptation of the “offer package” in the manner enabling the maximum use of benefits desirable for the given market segment;
- promotion of the “offer package” of the tourist company in order to create an image and understanding in respect of selected market segments.

Compared with the classic approach of the strategic positioning (emphasis on hotels, restaurants and other tourist facilities and the so-called image of tourist

facilities), there are obvious advantages of a modern approach to the positioning of tourist companies (the positioning of an entire company in the overall tourist infrastructure) in defining their efficient business strategies. The advantages consist of the following:

- facilitation of the overall assessment of the area and framework of activities of the tourist company;
- establishment of production and market framework for each business and each business unit within the tourist company;
- exact assessment of activities within the entire tourist structure rather than on the level of a given tourist facility;
- assistance in identifying the main strategic directions;
- pegging out and integrating the diversification management strategy and carrying out the activities of the tourist company.

3.2.6. The development of participatory management

The participatory management is the management style that makes it possible for employees to play a more important and independent role.

In the history of management theory, this type of management emerged in the Scandinavian countries. Managers realized that there existed a way of making a formal group successful by introducing teamwork and by aspiring to team efficiency. Everybody is to be given an opportunity to make a contribution and take part in work since it is not possible to foresee who will come up with the best idea or offer the best solution.

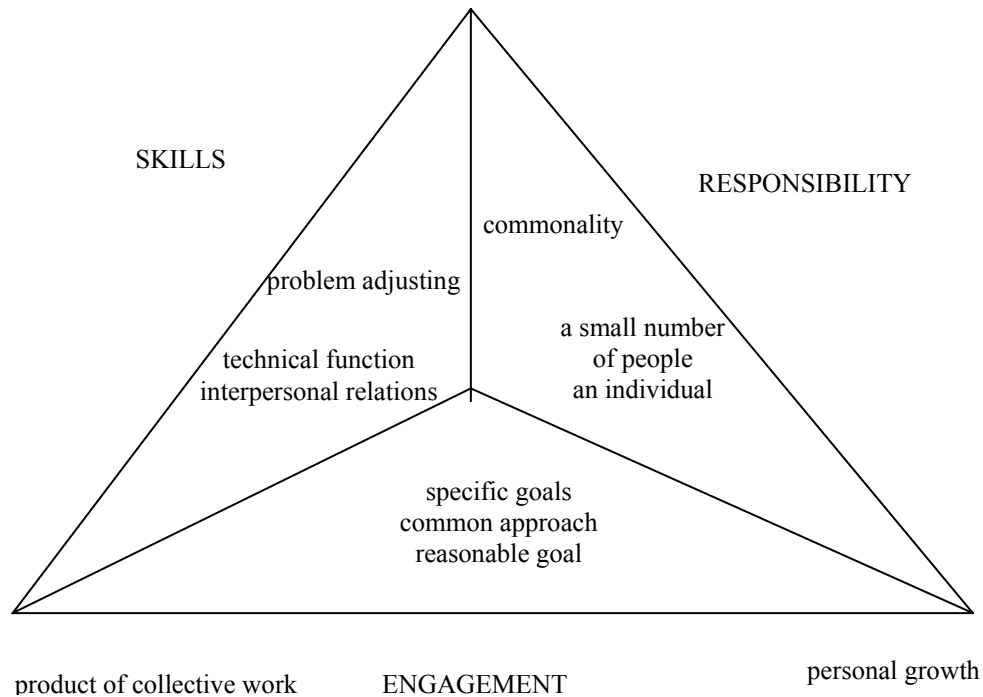
To that end, the Scandinavian countries (Sweden, in particular) have devised systematic procedures of participatory management. In it, participation of workers is not a temporary experiment or an *ad hoc* measure.

This type of management allows for the creation of teams focused on results. In order to make teams function effectively, the challenge of the result is the most important and best way to create teams.

Many consider that the basic elements of the team (including size,

purpose, goals, skills, approach and responsibility) may often be foreseen. The above graph (Figure no. 1) shows the basic elements making up teams: skills, qualifications of team members, responsibility of the team and team members' loyalty.

Figure no. 1



Source: John B. Katzenbach and Douglas K. Smith, *The Wisdom of Teams: Creating the High-Performance Organization* (Boston Harvard Business School Press, 1993), 8

It is well-known that the most difficult team to form is the one at the top of the organizations, primarily because of numerous misconceptions about team functioning. A number of simple rules may greatly improve team performance, especially of those at the top of the organization.

First, teams should deal with specific, concrete questions, rather than broad generalizations.

Second, tasks should be divided and transferred onto subgroups and individuals.

Third, team membership must be based on each individual member's ability/performance and skills, rather than on formal authority or individual positions in the organization. Fourth, each member

of the team should perform the same quantity of work or else a discrepancy between engagement and results will occur.

Five, teams will function only if the traditional model of hierarchy is broken in communication and inter-action. Finally, top management teams must cooperate, just as all others do, pull together their tasks and maintain an atmosphere of openness, loyalty and trust.

4. Conclusion

Taking into account market changes in choosing a growth and development strategy, priority should be given to penetration strategy and product development. Also, strategy of vertical integration is suitable for conditions in which tourist trade of Serbia operates. Externally based methods of growth, under examination, show that for tourist trade, when taken into account necessities of greater integration into international tourist exchange and faster access to world

tourist market, the optimum strategy is that of interconnection and merger. In implementing this strategy it is possible to accept all options (horizontal, concentric, vertical and conglomerate). In that sense, contractual and other arrangements are especially attractive as ways and means of external growth in the forms of: franchise, management contracts, strategic alliance and joint ventures.

- structure, as a component of strategic capability, needs to complement a strategy. We consider that the optimal solution is a functional structure or for complex forms of organization diversified companies or a divisional structure.

- when speaking about managing of companies of tourist trade we are of the opinion that strategic style of management and control needs to be implemented. For the control of execution of all operations and activities, strategic control is recommended.

Bibliography

1. Ansoff, I. *Corporate Strategy*, Penguin Book, Harmonds Worth, 1965
2. Cacic, K. *Operation of a Company in Tourism*, Faculty of Economics, Belgrade, 1995
3. Cerovic, S. *Management in Tourism*, Faculty of Natural Sciences and Mathematics, Novi Sad, 2003
4. Cerovic, S. *Strategic Management of the Tourist Industry of Serbia*, Zelnid, Belgrade, 2002
5. Cowell, D. *The Marketing of Services*, Heinemann Ltd., London, 1987
6. Hannagen, T.J. *Marketing for the Non-Profit Sector*, Macmillan, London, 1992
7. Katzenbach, J. and Douglas, S. *The Wisdom of Teams: Creating the High-Performance Organization*, Boston Harvard Business School Press, 1993
8. Kotler, P. *Principles of Marketing*, Prentice Hall, Englewood Cliffs, New Jersey, 1980
9. Milisavljevic, M. *Basic Strategic Management*, Business School Megatrend, Belgrade, 1995

10. Nickels, W. *Marketing Principles*, Englewood Cliffs, Prentice Hall, New Jersey, 1978
11. Porter, E.M. *Competitive Advantage*, The Free Press, New York, 1985
12. Unkovic, S. *Economics of Tourism*, Savremena Administracija, Belgrade, 1988
13. Vukotic, B. *Tourism and Development*, Skolska knjiga, Zagreb, 1987
14. WTO. *World Tourism Barometer*, No. 3, October 2004
15. WTO. *Compendium of Tourism Statistics*, Twentieth Edition, Madrid 2000
16. WTO. *Tourism Highlights*, 2001
17. Zemke, R. *Scandinavian Management – A Look to the Future* Management Review, 77, No.7, 1988

